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Message Text

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ACTION AF-04

INFO OCT-01 ADP-00 EB-03 COME-00 OPIC-01 XMB-01 L-02 AID-10

NSC-10 NSCE-00 CIAE-00 INR-10 NSAE-00 RSC-01 RSR-01

/044 W
---------- 013478
P 201530Z JUL 73
FM AMEMBASSY NAIROBI
TO SECSTATE WASHDC PRIORITY 2862

C O N F I D E N T I A L SECTION 1 OF 2 NAIROBI 4785

E.O. 11652: N/A
TAGS: EIND KE

LIMDIS

FOR COOTE AF/E FROM CHARGE

SUBJECT: FIRESTONE PROBLEMS IN KENYA

1. I WAS VISITED LATE JULY 19 BY HOWARD E. HUNT, DIRECTOR OF OPERATIONS OF FIRESTONE INTERNATIONAL IN AKRON, OHIO, WHO WAS ACCOMPANIED BY HIS KENYA PLANT MANAGER, ROBERT JENSEN, AND RAY MORROW, TECHNICAL OPERATIONS MANAGER FOR FIRESTONE INTERNATIONAL. HUNT (WHO DEPARTED KENYA LATER THAT EVENING) WAS VERY CONCERNED BECAUSE HE HAD JUST BEEN TOLD BY MINISTER FOR COMMERCE AND INDUSTRY KIANO THAT THE GOK CONTINUES TO QUESTION THE QUALITY OF FIRESTONE/KENYA TIRES AND THAT HE WAS CONSIDERING AUTHORIZING IMPORTATION OF COMPETING TIRES AND THEREBY BREAKING MINISTRY'S AGREEMENT WITH FIRESTONE WHICH ACCORDS SEVEN YEARS OF IMPORT PROTECTION. HUNT SAID THAT, IF KIANO BROKE HIS AGREEMENT, THE COMPANY WOULD HAVE TO CUT BACK ON KENYA PLANT LABOR FORCE AND MODIFY ITS SUBSTANTIAL INVESTMENT PLANS FOR THE FUTURE.

2. HUNT CLAIMED THAT EARLIER QUALITY PROBLEMS AT KENYA
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PLANT HAD BEEN CORRECTED AND THAT COMAPIGN AGAINST

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COMPANY NOW MOTIVATED TO LARGE EXTENT BY FORMER TIRE IMPORTERS AND POSSIBLY BY HIGHLY PLACED KENYAN (WHOM HE DID NOT NAME) WHO IS REPORTEDLY ANGLING FOR EXCLUSIVE RIGHT TO IMPORT MICHELIN TIRES INTO KENYA. HUNT SAID THAT HE HAD LEFT REPORT WITH KIANO REBUTTING ALLEGATIONS OF POOR TIRE QUALITY AND CONTAINING INFORMATION OF PROPRIETARY NATURE WHICH FIRESTONE DOES NOT NORMALLY RELEASE TO OUTSIDERS. ACCORDING TO HUNT, FAILURE RATE ON KENYAN FIRESTONE TIRES COMPARABLE TO INTERNATIONAL AVERAGES. HUNT MADE IT CLEAR TO ME THAT HIS RECOMMENDATION TO FIRESTONE MANAGEMENT WOULD BE TO "TOUGH IT OUT" AND STRONGLY OPOSE ANY KENYAN REQUEST TO REVISE AGREEMENT TO PERMIT IMPORTS, WITH POSSIBLE EXCEPTION OF TANZANIA-MADE GENERAL TIRES. JENSEN, WHO HAD ASKED ME EARLIER TO RAISE FIRESTONE PROBLEM WITH KIANO (ALONG WITH OTHER US COMMERCIAL ISSUES) ASKED WHAT REACTION I HAD GOTTEN. I SAID I HAD THUS FAR BEEN UNSUCCESSFUL IN GETTING ROUTINE APPOINTMENT WITH KIANO, BUT IN VIEW OF POSSIBLE FIRESTONE CONTRACT VIOLATIONS, SAID I WOULD SEEK APPOINTMENT ON AN URGENT BASIS.

3. I CALLED FOR AN APPOINTMENT ON FOLLOWING DAY AND ECONOMIC OFFICER ZUCCA AND I PROMPTLY RECEIVED BY KIANO AND PERMSEC MATHEKA. I EXPRESSED MY CONCERN OVER HUNT'S REPORT THAT TIRE IMPORTS MIGHT BE ALLOWED IN VIOLATION PROVISIONS OF CONTRACT WITH FIRESTONE AND EXPLAINED THAT EMBASSY'S INTEREST IN MATTER ESSENTIALLY THREEFOLD:

A) IF THE CONTRACT WERE REVISED UNILATERALLY, IT COULD DISCOURAGE US INVESTORS NOW PLANNING ESTABLISH OR EXPAND OPERATIONS HERE;

B) OPIC HAD ISSUED AN INVESTMENT GUARANTEE COVERING FIRESTONE PLANT IN KENYA.

C) EXIMBANK HAS PROVIDED SEVERAL MILLION DOLLARS TO FIRESTONE IN EXPORT FINANCING FOR CAPITAL GOODS.

4. KIANO QUICKLY REPLIED THAT HE DID NOT INTEND TO BREAK CONFIDENTIAL

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THE CONTRACT, BUT AT THE SAME TIME WOULD NOT TOLERATE MAUFACTURE OF INFERIOR PRODUCTS. HE ADMITTED, HOWEVER, CONTRACT HAD NO PROVISIONS RE MINIMUM STANDARDS OR QUALITY CONTROL. MINISTRY HAD RECEIVED TOO MANY COMPLAINTS ON QUALITY TO IGNORE THEM AND HE WAS UNDER GREAT PRESSURE FROM PARLIAMENT TO DO SOMETHING. HE ACKNOWLEDGED THAT MACHINERY IN THE PLANT WAS "PERFECT," BUT FELT THAT SOMETHING WAS BASICALLY WRONG WITH PLANT'S MANAGEMENT

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AND SUPERVISION. HE SAID COMPANY WAS PRESENTING POOR
EXCUSES TO REBUT COMPLAINTS ABOUT QUALITY AND CITED
EXAMPLE OF DISTRUBUTOR WHO HAD BEEN PRESSURED BY
FIREFTONE LAST WEEK TO SIGN LETTER ADDRESSED TO KIANO
CLAIMING QUALITY OF KENYAN FIRESTONES SUPERIOR TO THAT
OF IMPORTED TIRES. WHEN KIANO CHECKED, HE FOUND THAT
LETTER HAD BEEN PREPARED BY FIRESTONE FOR SIGNATURE BY
DISTRIBUTOR WHO ADMITTED TO KIANO THAT HE HAD COMPROMISED
HIMSELF. (KIANO SAID HE HAD NOT MENTIONED THIS "DISCOVERY"
TO HUNT AND JENSON, BUT URGED ME TO DO SO.
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ACTION AF-04

INFO OCT-01 SS-14 ADP-00 EB-03 COME-00 OPIC-12 XMB-01 L-02

AID-10 NSC-10 NSCE-00 CIAE-00 INR-10 NSAE-00 RSC-01

RSR-01 /069 W
---------- 013869
P 201535Z JUL 73
FM AMEMBASSY NAIROBI
TO SECSTATE WASHDC PRIORITY 2863

C O N F I D E N T I A L SECTION 2 OF 2 NAIROBI 04785

LIMDIS

E.O. 11653: N/A
TAGS: DIND KE

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FOR COOTE AF/E FROM CHARGE

SUBJECT: FIRESTONE PROBLEMS IN KENYA

5. REPEATEDLY, KIANO REFERRED TO REPORT HUNT AND JENSEN
HAS GIVEN HIM PREVIOUS DAY CITING INSTANCES OF REBUTTALS
OF COMPLAINT WHICH WERE TOO WEAK OR EXAGGERATED TO BE
CREDIBLE. NONE OF THESE REBUTTALS, IN KIANO'S OPINION,

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STOOD UP TO DETAILED EXAMINATION, NOR COULD HE POSSIBLY
PRESENT THEM TO PARLIAMENT. KIANO ALSO FELT THE COMPANY
WAS NOT AFRICANIZING ITS TOP MANAGEMENT QUICKLY ENOUGH,
CITING EXAMPLE OF PUBLIC RELATIONS MANAGER, AN AFRICAN,
WHO HAD BEEN SHUNTED OFF TO A LESS IMPORTANT JOB, AND
CONTINUATION IN SALES JOB OF AN ASIAN.
6. KIANO STATED HE WILL HAVE TO RESPOND SOON TO
PARLIAMENTARY INQUIRIES, BUT NOT UNTIL PARLIAMENT
RECONVENES IN EARLY SEPTEMBER. AT THAT IME, HE WILL HAVE
TO MAKE A STATEMENT. HE BELIEVES THAT THE BASIC PROBLEM
BOILS DOWN TO POOR MANAGEMENT, PARTICULARLY INADEQUATE
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CONTROL OVER REJECTS ON THE PRODUCTION LINE, AND HE
INDICATED HE WOULD BE IN BETTER POSITION TO ANSWER
PARLIAMENTARY CRITICISM IF FIRESTONE WERE TO SEND TOP-LEVEL
OFFICIAL (HE SAID HUNT WOULD BE ACCEPTABLE), OR INDEPENDENT
MANAGEMENT CONSULTANT, TO REVIEW IN DETAIL ORGANIZATION
AND MANAGEMENT OF KENYA PLANT. HE MADE IT CLEAR
THAT HE HAD NO CONFIDENCE IN JENSEN'S ABILITY TO CORRECT
ALLEGED MANAGERIAL DEFICIENCIES IN HIS OWN PLANT.
7. I SAID THAT I WOULD REPORT OUR CONVERSATION TO YOU
AND THAT YOU MIGHT, AT YOUR DISCRETION, TRANSMIT THIS
SUGGESTION TO HUNT, WHO IS ON HIS WAY BACK TO THE US.
KIANO SAID THAT HE HAD NOT MADE MANAGEMENT REVIEW
SUGGESTION TO HUNT AT TIME OF THEIR LAST MEETING BECAUSE OF
PRESENCE OF JENSEN AND BECASUE HE THOUGHT REPORT HUNT AND
JENSEN HAD JUST GIVEN TO HIM MIGHT OFFER SOLUTION. AS
I LEFT KIANO AGAIN EMPHASIZED THAT GOK HIGHLY RELUCTANT
TO VIOLATE INTERNATIONAL AGREEMENT, BUT HE ASKED RHETORICALLY
WHETHER FOREIGN INVESTORS AND BUSINESSMEN COULD REALLY
BLAME GOK IF THIS WERE TO HAPPEN IN VIEW POOR PERFORMANCE
OF FIRESTONE IN KENYA.
8. HISTORY SEEMS TO BE REPEATING ITSELF. MY CALL ON
KIANO MAY HAVE SLOWED THINGS DOWN A BIT, BUT I HAVE
IMPRESSION THAT IF PARLIATMENTARY PRESSURES BECOME STRONG
ENOUGH, KIANO WILL GIVE WAY TO IMPORT ISSUE. UNFORTUNATELY,
IF YOU CONTACT HUNT, THIS MIGHT SET IN MOTION PROCESS
WHICH WOULD AGAIN LEAD TO DISMISSALS OF AMERICAN PERSONNEL
IN LOCAL PLANT WHICH MAY WELL BE UNWARRANTED. QUITE
FRANKLY, WE HAVE NO REPEAT NO OBJECTIVE WAY
OF EVALUATING ALLEGATION OF POOR QUALITY OR POOR MANAGEMENT.
OB BALANCE, HOWEVER, I AM AFRAID THAT BROADER U.S. INTERESTS
REQUIRE THAT -- IF POSSIBLE -- WE GIVE KIANO SOMETHING HE
CAN USE TO FEND OFF CRITICISM. DESPITE DISADVANTAGES, I'M
INCLINED TO BELIEVE THAT AN APPROACH BY YOU TO HUNT
BEST COURSE OF ACTION.
9. I PLAN TO BRIEF JENSEN ON GENERAL SUBSTANCE KIANO'S
REMARKS TO ME.
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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 20 JUL 1973
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973NAIROB04785
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS LINDSTROM
Errors: N/A
Film Number: n/a
From: NAIROBI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730720/aaaaaopc.tel
Line Count: 223
Locator: TEXT ON-LINE
Office: ACTION AF
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 09 JAN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09-Jan-2002 by boyleja>; APPROVED <30-Jan-2002 by golinofr>
Review Markings:

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US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FIRESTONE PROBLEMS IN KENYA
TAGS: EIND, KE
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

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